

South Africa's regulation of agricultural product standards falls short

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As industry and the government debate the steps required to implement the agricultural and agro-processing master plan, it bears highlighting that many of the required actions will have to take place in the government sphere.

Improved productivity and more efficient delivery of critical government tasks and functions would move SA agriculture ahead at speed.

A case in point is the critical issue of agricultural product standards, which are largely managed via the Agricultural Product Standards Act. Agricultural markets cannot function without institutions or the “rules of the game”. The state therefore has an important duty to ensure appropriate institutions are in place and functional.

In agricultural produce and food products generally the most important institutions are grading systems, food safety legislation and sanitary & phytosanitary systems. Other examples include the bylaws and rules for municipal markets, and information systems in agricultural markets generally and the futures markets particularly.

Grades and standards in agricultural commodities and food products are vital for efficient price discovery and market function. Setting grades and standards in co-operation with industry associations is one matter, but more important is the effective regulation, application and enforcement of grades and standards by the government. Over the past 20 years it has become clear that enforcement and co-ordination, as well as the mechanisms of enforcement, are a challenge in SA.

Agricultural and food products have specific attributes, but information about the quality (or weight, size and grade) of a product is not evenly distributed between producer and consumer, since the latter can only know this information by consuming the product. This is typically referred to as a “credence attribute”. Consumers therefore need to be guided by classification standards or labelling so they can make informed purchase decisions.

The Agricultural Products Standards Act regulates most agricultural produce, from dairy to meat and fresh produce. There is a set of regulations for each product, specifying its definition, classification and the various grades within each product category. Even claims on labels and packing regarding origin and production practices (such as “west coast” or “free range”) should be defined by production protocols and audited.

In most countries these regulations are enforced by a well-staffed agricultural inspection service within the agriculture ministry. However, in SA these functions are outsourced to “assignees” — various organisations for different products or commodities that are appointed under the Agricultural Products Standards Act.

No-one disputes the importance and role of these organisations and their functions, but over the last three years there has been increasing discomfort within the agricultural industries about the “assignees”. This revolves on the fact that role players in the food supply chain must pay for inspection and auditing services from these “assignees”, which means the cost of

inspection and auditing either inflates the price of the final product at the retail end or results in producers earning less than before.

Those who are interested in food prices, particularly retail price inflation, often forget about the costs that are passed on to retailers, processors and farmers to comply with agricultural product standards. Consider that “assignees” must audit or inspect both the fresh produce market and every retail store where, say, potatoes or onions are sold.

They invoice the retailer, packer and fresh produce market for the service. If the market or retailer does not pay the invoice they will be delisted as traders in the product. It is not in the interests of the assignees for any role player in the supply chain to fail an audit, because if they are delisted they will not be a potential fee-paying client in future. This means assignees are incentivised to do a “light inspection” to avoid losing future income.

There is no guarantee that the regulations on product standards are properly enforced, as the incentives and systems are not aligned with the goal and will naturally tend to lead to opportunistic behaviour. This could be to the detriment of the credibility of product standards, but consumers and producers also have to pay for services that are the duty of the state.

This should be fixed, and is something that should be highlighted in the action steps for the implementation of the agricultural and agro-processing master plan.

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